



**APPROVED on 10-18-10**

**CITY OF SCOTTSDALE  
AUDIT COMMITTEE**

**REGULAR MEETING MINUTES  
MONDAY, SEPTEMBER 27, 2010**

**CITY HALL  
KIVA CONFERENCE ROOM  
3939 NORTH DRINKWATER BOULEVARD  
SCOTTSDALE, AZ 85251**

**PRESENT:** Councilman Robert Littlefield, Chair  
Councilwoman Lisa Borowsky  
Vice-Mayor Suzanne Klapp

**STAFF:** Bill Murphy, Community Services Department  
Jan Cameron, Community Services Department  
Tim Barnard, Community Services Department  
La Verne Parker Diggs, Human Resources Department  
Bernadette LaMazza, Human Resources Department  
Velicia McMillan, Human Resources Department  
Ken Nemec, Human Resources Department  
David Ellison, Assistant City Manager  
David Smith, City Treasurer  
Kyla Anderson, City Auditor's Office  
Joyce Gilbride, City Auditor's Office  
Lisa Gurtler, City Auditor's Office  
Joanna Munar, City Auditor's Office  
Sharron Walker, City Auditor's Office

## **CALL TO ORDER**

Chair Littlefield called the meeting to order at 4:02 p.m.

### **1. Approval of Minutes, Regular Meeting, August 30, 2010**

Vice Mayor Klapp moved to approve the minutes of the August 30, 2010 Regular meeting. The motion carried unanimously with a vote of three (3) to zero (0).

### **2. Discussion and possible direction to staff regarding Audit Report No. 1102, Parks & Recreation Intergovernmental Agreements**

Ms. Lisa Gurtler of the City Auditor's Office reported this audit of intergovernmental agreements (IGAs) between the Parks & Recreation Department and the Scottsdale, Cave Creek, and Paradise Valley unified school districts was requested by Community Services management. The primary audit objective was to review the existing 19 agreements and determine whether they provide equal benefit to all parties. Additionally they evaluated whether opportunities to improve program administration exist.

The auditors found that the IGAs were generally meeting their intent to maximize public recreational opportunities through shared facility use. During the last fiscal year, the City used school district facilities for over 9,100 hours while the district used City facilities for about 7,400 hours. The estimated value of the IGA benefits received by the City totaled almost \$359,000. The three school districts benefited by over \$487,000. The Scottsdale Unified School District received 99 percent of those benefits.

Improvements can be made in the areas of administrative oversight of the IGAs, reporting and monitoring of shared facilities, and correction of the City's depreciation schedule.

Community Services Executive Director Bill Murphy told the Committee the department is very appreciative. Part of the process was consolidating all the IGA information. They now intend to go back to the school districts and discuss the items in the action plan.

### **3. Discussion and possible direction to staff regarding Audit Report No. 1103, Compensation Practices and Controls**

Ms. Joyce Gilbride said the objective of this audit was to evaluate the City's practices and controls related to compensation, including established policies and procedures. Policies have been established for most compensation practices in Chapter 14 of the City Code. However, three practices primarily affecting executive level employee compensation have been in use for several years without policy guidance from City Council or adoption in the City Code.

The first such practice is City-paid contributions to employees' deferred compensation plans. Since May 2004 the City has contributed about \$389,000 to non-Charter employees' deferred compensation accounts. Since that time, the number of positions receiving the benefit has almost doubled from six to 11.

The provision of additional vacation and medical leave is the second practice. Since at least 2001, select new hires have been given additional leave, varying from 10 to 120 hours. Generally these leave hours were made available for immediate use. Approximately 1,700 vacation hours and about 800 medical leave hours were given to 19 executive level new hires between July 2001 and July 2010. This practice is also inconsistent with City Code as granting this additional leave results in the employee exceeding the annual leave amounts, and also waives the standard requirement for an employee to complete 13 bi-weekly pay periods before taking vacation.

Finally, the audit report lists compensation bonuses received from fiscal years 2005/06 through 2007/08. These lump sum bonuses were provided to select executive level employees as part of their annual compensation and totaled over \$139,000.

Additionally administrative oversight of existing compensation related policies can be improved. The audit noted that Police and Fire have established certain compensation policies related to minimum salary and special pay types that are not in City Code or administrative regulations. Also, requirements for receiving certain additional pay types were not applied. During the period reviewed, at least 65 annual employee performance reviews were 12 months or more overdue and another 136 were six to 12 months past due. Finally, some compensation related ARs have not been updated for several years.

Councilwoman Borowsky asked whether HR reviews and approves these requests from departments. Ms. La Verne Parker Diggs, Executive Director of Human Resources, said it depends. When executives are hired through negotiations with the City Manager, there has been no written policy for them to use in evaluating offers. Ms. Parker Diggs believes that Human Resources should be involved in the hiring negotiations. Chairman Littlefield asked if he was summarizing correctly, that Human Resources has two issues: one that they are not involved in the hiring process for executives and the second that there is not a written policy they can refer to. Ms. Parker Diggs confirmed this summary.

Councilwoman Borowsky asked Ms. Gilbride about the practice that is inconsistent with City Code. Ms. Gilbride said that medical and vacation leave accrue annually, and granting additional hours exceeds the annual accrual levels. Also there is a requirement that employees work at least 13 biweekly pay periods before taking vacation. Granting the additional hours for immediate use violates that requirement. Hire and benefit dates are currently manipulated in the payroll system to allow this to happen.

Councilwoman Borowsky commented that it sounds like criteria are in place; it is a question of how they are applied. Ms. Parker Diggs said the ordinance gives guidelines on what should happen and does not treat executive compensation differently than other employees. Historically the City Manager has had some discretion in this area, which has led to this situation.

Assistant City Manager David Ellison added that executive evaluations vary from one organization to the next. Some of the different treatment of executives results from conditions in the marketplace, but he would agree a clear Council driven philosophy supported by policy would be very good.

Vice Mayor Klapp was concerned about evaluations. Everyone in the organization should be evaluated on a timely basis. A pay plan should be tied to the evaluation system. Mr. Ellison said much depends on the personal style of the City Manager. City

Auditor Sharron Walker commented that City Code requires all employees to have an annual evaluation.

Ms. Parker Diggs said that the response from HR discusses a time frame for putting administrative regulations in place to address the findings of the audit report.

City Auditor Sharron Walker said the recommendation is for these to be brought to Council for policy guidance. Chairman Littlefield agreed.

**4. Discussion and possible direction to staff regarding results of a comprehensive review of employee benefits, including vacation and medical leave accrual**

Ms. Parker Diggs noted that at a study session in June City Council directed Human Resources to examine employee leave policies. This will be presented to Council at a work study session on October 12. The Executive Committee suggested some changes. Human Resources is also obtaining feedback from employee groups.

Benefits Manager Ken Nemec presented the policies. They have received a legal opinion that an employer has broad latitude to change vacation and medical leave benefits going forward. However, existing accruals are protected. The team has identified some possibilities for change, which if adopted could go into effect July 1, 2011. Current practice is to start medical and dental benefits for employees as of the first day of hire. The suggestion is to start medical and dental benefits on the first day of the month after an employee has served for one full month. This proposal is in line with the practices of other Valley cities. There are administrative advantages to adopting this policy; any savings realized would be quite small.

Mr. Ellison interjected that the Chief Financial Officer's office is still working to quantify the various proposals. City Treasurer David Smith assured Chairman Littlefield that these figures will be known by the October 12 study session.

Councilwoman Borowsky asked whether there will be a financial impact of the proposed change to vacations. Mr. Smith said when City staff take vacation others do some of their work and some is waiting for them when they return, so there would be minimal financial impact. The exception is public safety where someone else must work to replace the vacationing police officer or firefighter. Councilwoman Borowsky commented that vacation hours seem extraordinarily generous. Mr. Nemec said the team found the proposed levels are in line with other Valley cities. Councilwoman Borowsky suggested cutting vacation to a much lower level. In the current economy this would be feasible. Mr. Smith pointed out that the proposal is for all employees to receive an extra floating holiday. The vacation reduction will only affect employees with tenure of one to five years. Vice Mayor Klapp noted that in the private sector employers do not give so much vacation to new hires.

In reply to an inquiry by Chairman Littlefield, Mr. Nemec said the presentation will be in tomorrow's Council packets. He agreed to email it to Chairman Littlefield also.

**5. Discussion and possible direction to staff regarding status of FY 2010/11 Audit Plan**

Ms. Walker said the auditors are still on schedule. The residential solid waste cost analysis has been added to the list. The meter reading audit has been rescheduled for later in the year. She expects the work on that audit to be completed in this fiscal year, but the report may not be finalized before year end.

Committee Member Borowsky asked Ms. Walker about the department's work load. Ms. Walker replied that as long as she has some flexibility in modifying the audit plan if needed, she feels they can handle what is currently scheduled. The job of the City Auditor's office is to provide Council with the independent analysis they need.

#### **6. Discussion and possible direction to staff regarding follow-up of Audit Recommendations quarterly report**

Ms. Walker noted that this follow up report included a link to the detailed report to reduce the size of the packets, but if the Committee Members prefer, printed copies of the detailed report can be provided. The Audit Committee and Council's decision to have a follow-up program has helped encourage departments to implement audit recommendations.

Chairman Littlefield inquired whether anything in the report sticks out as needing attention or taking along time. Ms. Walker noted that Economic Vitality has a number of items, such as those with the Cultural Council contract, that have been pending for a long time. They have recently gotten a new contract administrator who has been getting up to speed.

The "not implemented" report has been cleaned up with help from the Treasurer's Office, as they better understand and are addressing the items or the auditors now have a clear understanding of why certain items were not being implemented. She believes a few more items may come off the list before she presents it to City Council as the chair had indicated.

#### **7. Discussion of agenda items for the next Audit Committee meeting (October 18, 2010)**

Ms. Walker expects to present the Residential Solid Waste Cost Analysis at the October meeting, and has scheduled to present the report to City Council on October 19. The Taxpayer Problem Resolution Officer quarterly update is also on the agenda.

#### **Public Comment**

No members of the public wished to address the Committee.

#### **Adjournment**

The meeting adjourned at 4:38 p.m.

Respectfully submitted,  
A/V Tronics, Inc. DBA AVTranz.